

Message Text

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TO USMISSION GENEVA IMMEDIATE

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FOR LEIPZIGER AND BRUCE FROM DUNFORD

E.O. 11652: N/A

TAGS: EFIN, ETRD, UNCTAD

SUBJECT: UNCTAD EXPERTS MEETING ON INFLATION: ANALYSIS OF
FACTORS AFFECTING INFLATION IN LDCS

1. WE HAVE ESTIMATED EQUATIONS OVER THE PERIOD 1970-1976
EXPLAINING DOMESTIC INFLATION IN 30 SELECTED LDCS AS A
FUNCTION OF THEIR DOMESTIC MONEY GROWTH IN THE PREVIOUS YEAR
AND INDUSTRIAL COUNTRY AGGREGATE EXPORT PRICES. (THE CORRE-
LATION ANALYSIS YOU SUGGESTED WAS NOT USEFUL BECAUSE IT
FAILED TO EFFECTIVELY DISCRIMINATE BETWEEN MONEY AND IMPORT
PRICES IN THEIR RELATIVE EFFECTS ON DOMESTIC INFLATION.)
INDUSTRIAL COUNTRY AGGREGATE EXPORT PRICES WERE SELECTED
BECAUSE LESS THAN HALF OF THE LDCS SELECTED HAD PUBLISHED
SERIES (IN THE IMF INTERNATIONAL FINANCIAL STATISTICS) FOR
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IMPORT PRICES AND THOSE SERIES THAT WERE AVAILABLE INCLUDED
THE PETROLEUM PRICE INCREASE OF 1973.

2. FROM THESE ESTIMATED EQUATIONS WE ESTIMATED THE ELAS-
TICITY OF DOMESTIC INFLATION WITH RESPECT TO DOMESTIC MONEY
GROWTH AND IMPORT PRICE MOVEMENTS. WE ALSO ESTIMATED BETA
COEFFICIENTS FOR THE TWO VARIABLES, A STATISTIC USEFUL IN
DETERMINING THE RELATIVE IMPORTANCE OF THE INDEPENDENT VARI-
ABLES IN A REGRESSION. (A BETA COEFFICIENT IS THE ESTIMATED
COEFFICIENT OF THE REGRESSION NORMALIZED BY THE STANDARD

ERRORS OF THE INDEPENDENT AND DEPENDENT VARIABLES. IT EQUALS THE ESTIMATED COEFFICIENT MULTIPLIED BY THE RATIO OF THE STANDARD DEVIATION OF THE INDEPENDENT VARIABLE TO THE STANDARD DEVIATION OF THE DEPENDENT VARIABLE. SIMILAR TO ELASTICITY INTERPRETATION, A BETA COEFFICIENT OF .5 MAY BE INTERPRETED TO MEAN THAT A STANDARD DEVIATION CHANGE OF 1 IN THE INDEPENDENT VARIABLE WILL LEAD TO A STANDARD DEVIATION CHANGE OF 0.5 IN THE DEPENDENT VARIABLE.)

3. THE RESULTS OF THE REGRESSIONS SHOW THAT IN 23 OF THE 30 COUNTRIES STUDIED, DOMESTIC MONEY SUPPLY CHANGES HAD A GREATER INFLUENCE ON DOMESTIC INFLATION THAN DID IMPORT PRICES (AS MEASURED BY THE BETA COEFFICIENTS OF THE MONEY SUPPLY AND IMPORT PRICE TERMS FOR EACH COUNTRY). OF THE 23 MONEY-SUPPLY BETA COEFFICIENTS, 21 WERE SIGNIFICANT AT THE 95 PERCENT LEVEL. IN ONLY 6 OF THESE 23 COUNTRIES WAS THE IMPORT PRICE TERM SIGNIFICANT.

4. IN 7 OF THE 30 COUNTRIES, (COSTA RICA, GUYANA, INDIA, THE PHILIPPINES, SRI LANKA, TAIWAN AND THAILAND), IMPORT PRICES WERE MORE IMPORTANT IN EXPLAINING DOMESTIC INFLATION. FIVE OF THE 7 IMPORT-PRICE BETA COEFFICIENTS WERE UNCLASSIFIED

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SIGNIFICANT AT THE 95 PERCENT LEVEL AND IN 2 OF THE 7, THE MONEY SUPPLY WAS SIGNIFICANT.

5. THE REGRESSION SUMMARY STATISTICS WERE ALL GOOD. THE R-SQUARES OF ALL EQUATIONS EXCEEDED 90 PERCENT. ONLY 4 OF 30 DURBIN-WATSON STATISTICS SIGNALLED SERIOUS AUTOCORRELATION PROBLEMS. IN ONLY 3 CASES DID THE NORMALIZED STANDARD ERRORS OF THE REGRESSIONS EXCEED 10 PERCENT.

6. IN SUM, WE FOUND DOMESTIC MONEY GROWTH TO BE A (STATISTICALLY) SIGNIFICANT CONTRIBUTING FACTOR IN 23 OUT OF 30 COUNTRIES, AND MORE IMPORTANT THAN IMPORT PRICES IN EXPLAINING DOMESTIC INFLATION IN 21 OUT OF 30 COUNTRIES. CONVERSELY, WE FOUND IMPORT PRICES TO BE A (STATISTICALLY) SIGNIFICANT CONTRIBUTING FACTOR IN 11 OUT OF 30 COUNTRIES, BUT MORE IMPORTANT THAN DOMESTIC MONEY GROWTH IN ONLY 5 COUNTRIES. IN 4 COUNTRIES (IVORY COAST, KENYA, TAIWAN, AND THAILAND) NEITHER VARIABLE WAS SIGNIFICANT AT THE 95 PERCENT LEVEL.

Z. THUS, "THE FAULT, DEAR BRUTUS, LIES NOT IN THE STARS,

7. THUS, "THE FAULT, DEAR BRUTUS, LIES NOT IN THE STARS, BUT IN OURSELVES". A TABLE OF REGRESSION RESULTS IS ATTACHED.

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SUMMARY OF REGRESSION RESULTS 1970 - 1976 (SECTION 1)

BETA COEFFICIENTS FOR:&&

COUNTRY	MONEY SUPPLY	IMPORT PRICES
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ARGENTINA&	1.19 (31.56)	-0.27 (-7.08)
BRAZIL&	1.18 (22.29)	-0.20 (-3.71)
CHILE&	0.98 (36.05)	0.03 (01.22)
COLOMBIA&	1.08 (07.09)	-0.08 (-0.53)
COSTA RICA	0.26 (01.28)	0.74 (03.63)

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DOMINICAN REPUBLIC&	0.57 (03.16)	0.43 (02.37)
EGYPT&	0.93 (13.21)	0.07 (01.06)
GHANA&	1.24 (07.61)	-0.28 (-1.73)
GUYANA&	0.35 (05.90)	0.68 (11.33)
INDIA	-0.87 (-2.49)	1.84 (05.25)
INDONESIA&	0.69 (05.55)	0.32 (02.58)
IRAN&	0.91 (10.04)	0.09 (01.03)
ISRAEL&	1.51 (03.77)	-0.54 (-1.35)
IVORY COAST&	0.66 (01.95)	0.33 (00.99)
JAMAICA&	0.51 (03.66)	0.50 (03.65)
KENYA&	0.57 (00.82)	0.40 (00.58)
KOREA&	1.20 (04.74)	-0.22 (-0.85)
MALAYSIA&	0.70 (04.33)	0.30 (01.83)
MEXICO&	0.93 (11.74)	0.07 (00.86)
MOROCCO&	0.68 (03.25)	0.32 (01.54)
NIGERIA&	0.71 (06.73)	0.32 (03.06)
PERU&	1.47 (04.19)	-0.52 (-1.49)
PHILIPPINES	0.12 (00.53)	0.88 (04.01)
SRI LANKA	0.34 (04.79)	0.67 (09.44)
TAIWAN	0.18 (00.41)	0.80 (01.81)
THAILAND	0.43 (00.77)	0.57 (01.04)
VENEZUELA&	0.59 (09.90)	0.44 (07.41)
YUGOSLAVIA&	0.59 (04.08)	0.42 (02.85)
ZAIRE&	1.72 (04.33)	-0.82 (-2.07)
ZAMBIA&	0.95 (05.70)	0.05 (00.31)

& DOMESTIC MONEY SUPPLY MOVEMENTS ARE MORE IMPORTANT THAN
IMPORT PRICES IN DETERMINING DOMESTIC INFLATION.

&& T STATISTICS IN PARENTHESES. FOR 4 DEGREES OF FREEDOM,
APPROPRIATE T STATISTIC AT A 95 CONFIDENCE INTERVAL IS
2.132.

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SUMMARY OF REGRESSION RESULTS 1970 - 1976 (SECTION 2)

ESTIMATED ELASTICITIES FOR:

COUNTRY MONEY SUPPLY IMPORT PRICES

ARGENTINA	1.59	1.78
BRAZIL	0.84	-0.35
CHILE	0.97	0.22
COLOMBIA	1.03	-0.12
COSTA RICA	0.19	0.80
DOMINICAN	0.36	0.37
REPUBLIC		
EGYPT	0.38	0.04
GHANA	1.31	-0.55
GUYANA	0.13	0.46
INDIA	-0.78	1.55
INDONESIA	0.45	0.52
IRAN	0.37	0.07
ISRAEL	1.76	-1.07
IVORY COAST	0.38	0.25
JAMAICA	0.40	0.56
KENYA	0.49	0.39
KOREA	0.68	-0.26
MALAYSIA	0.34	0.18
MEXICO	0.75	0.07
MOROCCO	0.33	0.20
NIGERIA	0.33	0.38
PERU	1.00	-0.67
PHILIPPINES	0.10	0.98
SRI LANKA	0.27	0.38
TAIWAN	0.10	0.82
THAILAND	0.33	0.42
VENEZUELA	0.15	0.22
YUGOSLAVIA	0.39	0.56
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ZAIRE	2.55	-1.89
ZAMBIA	0.79	0.04

SUMMARY OF REGRESSION RESULTS 1970 - 1976 (SECTION 3)

. REGRESSION PARAMETERS&&&

COUNTRY R-SQUARED D-W NORMALIZED SER

ARGENTINA	.996	1.70	.11
BRAZIL	.998	1.84	.02
CHILE	.998	2.58	.09
COLOMBIA	.993	2.90	.03
COSTA RICA	.979	1.05	.04
DOMINICAN	.988	2.53	.03
REPUBLIC			
EGYPT	.997	2.73	.01
GHANA	.974	2.44	.09
GUYANA	.994	2.91	.02

INDIA	.977	1.31	.04
INDONESIA	.990	1.80	.04
IRAN	.997	3.46	.01
ISRAEL	.956	1.24	.12
IVORY COAST	.935	1.80	.05
JAMAICA	.989	1.46	.03
KENYA	.891	1.10	.09
KOREA	.977	2.57	.05
MALAYSIA	.998	1.99	.01
MEXICO	.997	1.70	.02
MOROCCO	.976	3.24	.03
NIGERIA	.976	2.80	.05
PERU	.943	2.49	.08
PHILIPPINES	.984	3.05	.04
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SRI LANKA	.999	2.72	.00
TAIWAN	.945	2.35	.07
THAILAND	.983	2.58	.03
VENEZUELA	.995	2.33	.01
YUGOSLAVIA	.989	2.23	.04
ZAIRE	.911	3.11	.19
ZAMBIA	.975	2.35	.03

&&®RESSION PARAMETERS INCLUDED THE ADJUSTED R-SQUARED,
THE DURBIN-WATSON STATISTIC AND THE NORMALIZED STANDARD
ERROR OF THE REGRESSION. VANCE

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